BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSAL SEVEN)	Docket No. RM2018-10

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-5 OF CHAIRMAN'S INFORMATION REQUEST NO. 1**
(July 23, 2018)

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 1, issued July 16, 2018. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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1. In reference to the Postal Service proposal to consolidate the FSM/1000 into the AFSM 100 cost pool, the Petition states in consolidating the LD15LNT [sic] cost pool with the D/BCS cost pool that LDC 15 "is a small cost pool with total pool costs of $1.8 million in FY 2017." Petition at 6. The Postal Service's Docket No. ACR2017 filing shows that LDC 15 had $67.327 million in FY 2017.[1] Please confirm that the $1.8 million refers to a labeling pool with the LMLM & LCREM (Letter Mail Labeling Machine & Low Cost Reject Encoding Machine) and the remainder of the $67.327 million consists of the RECS pool (remote encoding centers). *Id.* If not confirmed, please explain.

RESPONSE:

Confirmed that the $1.8 million refers only to the LD15PLNT cost pool. Proposal Seven

does not change the treatment of the remaining LDC 15 Remote Encoding Center

costs.

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[1] *See* Docket No. ACR2017, USPS-FY17-7, December 29, 2017, folder "USPS-FY17-7 Excel Workbooks and Data," Excel file "USPS-FY17-7 part1.xlsx, tab I-2.CPool Costs-MODS."

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2.   In reference to the Postal Service proposal to consolidate the FSM/1000 into the
AFSM 100 cost pool, the Postal Service states, "As of the beginning of FY 2017,
the Postal Service still employed just 22 of the original 355 FSM 1000s, and the
Postal Service expects continued decline in the use of the remaining UFSM 1000
equipment." Petition at 6. According to the Postal Service's Rule 3050.60(f)
Report for FY 2017 for Cost Segment 3, "The UFSM[]1000 is designed to handle
flat mail not suitable for the AFSM 100."[2] The decline in the FSM/1000 cost
pool's accrued mail processing cost does not eliminate the stated purpose of
UFSM 1000 to handle flat mail not suitable for the AFSM 100.

    a.   What is the expected rate of decline in the use of the remaining UFSM
1000 equipment and when will all of the UFSM equipment be removed
from service?

    b.   After the UFSM 1000 equipment is retired, how will the Postal Service
handle flat mail not suitable for the AFSM 100?

RESPONSE:

    a.   Of the 22 UFSM1000 machines in service at the beginning of FY2017, 12

remained in service at the end of FY2017. Three of the twelve machines remain

in service as of the date of this response (July 23, 2018). The Postal Service

currently has no specific timeline for the retirement of the remaining machines.

Regardless of the ultimate date of withdrawal of the last UFSM1000s, the scale

of UFSM1000 operations will be considerably smaller in FY2018, and going

forward, than in FY2017.

    b.   The Postal Service expects that material handled on the UFSM1000 and

not compatible with the AFSM100 will be handled manually. As there were

approximately 44 million pieces fed in UFSM1000 operations in FY2017, and a

portion of that workload may be AFSM100 compatible and would not flow to

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[2] Rule 39 C.F.R. Section 3050.60(f) Report for FY 2017 (Summary Descriptions), July 2, 2018,
folder "CRA.Summary Description.FY17," file "CS03-17.docx," at 3-5.

manual, the Postal Service does not believe this will appreciably increase manual

flat workloads.

3. In support of the proposal to eliminate the MODS plant MECPARC and NDC NMO costs pools, the Petition states, "Currently, nearly all of the workhours in the MODS MECPARC cost pool in FY 2016 were in LCUS/HSUS/USS operations, and the very small amount of non-LCUS workhours appear to be the result of minor clocking errors in TACS....As with MECPARC, the remaining few hours are sufficiently small as to reflect minor TACS errors." Petition at 8-9. Please explain the basis for the Postal Service's conclusion that the reduced number of hours remaining in the MODS MECPARC and NDC NMO cost pools are the result of minor clocking errors in TACS. In the response, please identify any operationally legitimate reasons for an employee to be clocked into these operations.

RESPONSE:

The conclusion was based on the very small magnitude of the remaining workhours and the absence of corresponding MODS workloads indicating that the operations in question would have been present at the facilities recording the workhours. Thus, the Postal Service is not aware of an operationally legitimate reason for the workhours to be recorded in TACS.

The 1,037 remaining MECPARC workhours comprise 0.5 percent of the MECPARC cost pool hours (1,037/206,594) and 0.004 percent of MODS LDC 13 workhours (1,037/28,885,859). See Docket No. ACR2017, USPS-FY17-7 workbook part1.xlsx, tab '1-2B. CPool Hrs by Ops&LDC-MODS.' In the case of the NDC NMO cost pool (MODS operation 625), observations with positive recorded TPF ceased after January, 2017; the remaining observations with zero workload totaled 1,657 total workhours. The Postal Service expects no valid activity in the NDC NMO cost pool in FY2018.

4. In support of the proposal to consolidate MODS Function 4 cost pools with the non-MODS group, using the non-MODS cost pool definitions, the Petition states, "While the use of the non-MODS cost pool definitions would eliminate the use of census-based LDC-level costs for MODS offices, the larger effective sample sizes from combining MODS Function 4 tallies with non-MODS should result in little or no adverse effect on the coefficients of variation (CVs) for the sample-based cost estimates." Petition at 11. Please provide an estimate of the percentage increase in sample size from combining MODS Function 4 tallies with non-MODS in relation to the percentage decrease in the precision of estimates using census-based LDC level costs for MODS offices.

RESPONSE:

The increase in tallies assigned to the non-MODS mail processing cost pools for

FY2017 under Proposal Seven, reflecting the incorporation of tallies from MODS

Function 4 cost pools under the currently accepted methodology, can be seen in the

attached workbook Prop.7.CHIR1Q4.NonMODS.Tallies.xlsx. The Postal Service has

not specifically analyzed the effect of census-based LDC-level costs in the current

MODS Function 4 models on the precision of the mail processing cost estimates.

However, FY2017 mail processing cost CVs using the Proposal Seven methodology

have been computed. The CVs are shown in the attached workbook Prop.7.

CHIR1Q4.MP.CVs.xlsx. The results confirm that most CVs are little changed from the

currently accepted methodology, and in some cases show small improvements.

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5. The Postal Service's Office of Inspector General issued a report in 2017 on Cost Segment 3 – Clerks and Mail Handlers.[3] The OIG Report stated, "The potentially misallocated amount was only .01 percent of the total $10.9 billion in mail processing costs. Although it did not have a material impact on the reporting of FY 2015 Clerks and Mail Handlers Cost Segment data, ineffective MODS controls pose an increased data integrity risk, including the risk of reporting inaccurate mail processing costs for products and services." OIG Report at 8. It noted, "The risk that the authorization, completeness, and/or accuracy of transactions as they are entered into, processed, summarized, and reported by application systems are compromised due to inadequate recording structures." *Id.* at 8 n.17. The OIG Report listed five bulleted recommendations regarding the Postal Service's documented procedures for preparing Cost Segment 3. *Id.* at 9-10. Please explain what measures have been taken and/or are being taken by the Postal Service to address the OIG Report's criticisms and recommendations regarding Cost Segment 3 and whether Proposal Seven is responsive to any of those recommendations. If no measures have been taken, please explain.

RESPONSE:

Proposal Seven is not specifically responsive to the CP-AR-17-007 audit report (hereafter, "OIG Report"). The main substantive issues raised by the OIG Report concerned the potential effects of MODS data revisions on cost estimates for Cost Segment 3. Insofar as Proposal Seven consolidates several small cost pools for which otherwise minor absolute errors in workhours could be large in relative terms, the Postal Service believes that Proposal Seven should (other things equal) reduce the vulnerability of Cost Segment 3 estimates to errors and/or revisions in MODS-based costs. However, as the OIG Report acknowledged, the potentially misallocated costs were not material to begin with.

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[3] United States Postal Service Audit Report No. CP-AR-17-007, Cost Segment 3 – Clerks and Mail Handlers, March 22, 2017 (OIG Report), available at: https://www.uspsoig.gov/sites/default/files/document-library-files/2017/CP-AR-17-007.pdf.

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In response to the OIG Report, and as noted in the Management Comments, the Postal Service conducted an analysis of revised FY2016 MODS data to determine the impact of MODS workhour revisions on mail processing product costs. The analysis showed negligible effects of the revisions on FY2016 product costs, consistent with the small potential for cost misallocation described in the OIG Report.

Additionally, the Postal Service provided MODS data sets used in the development of Cost Segment 3 results as part of ACR2017 folder USPS-FY17-NP18 and noted the dates of extraction of the data in the folder preface. Consistent with past Commission requests, the tour-level data incorporate information associating finance numbers with facility groupings used in the Cost Segment 3 models. Thus, the Postal Service believes the MODS data provision is responsive to the OIG recommendation that necessary finance number information required for the Cost Segment 3 analysis be provided. See Docket No. ACR2017, response to Chairman's Information Request No. 21, Question 3 (March 5, 2018).

The OIG Report also criticizes some details of the Cost Segment 3 documentation the Postal Service views as minor. The Postal Service has filed the MODS Handbook M-32 on a number of occasions, most recently in Docket No. ACR2016, folder USPS-FY16-46 (March 1, 2017). The MODS handbook contains several sections detailing procedures to be used for *ex post* data adjustments. Consequently, the Postal Service believes that a further disclosure statement in explaining that MODS data are subject to

change is unnecessary. The Postal Service also views the specific procedures for
acquiring datasets for use in the calculations to be unimportant to a substantive
understanding of the Cost Segment 3 models and data. The Postal Service submits
that the relevant point is that the MODS, IOCS, and RPW data used in the cost segment
3 cost model match the respective data filed with the ACR.

The Cost Segment 3 methodology is extensively documented in ACR2017 folders
USPS-FY17-7 and USPS-FY17-NP18, including provision of SAS code that produces
the primary Cost Segment 3 CRA inputs, and the accepted methodology is covered in
considerable detail in the Summary Description. The documentation includes Excel
worksheets listing specific assignments of MODS operations to cost pools and LDCs, as
well as qualitative descriptions of the activities associated with each cost pool in the
Summary Description. Additional cost adjustments are computed in the B Workpapers
(ACR2017 folders USPS-FY17-32 and USPS-FY17-NP14), in Excel workbooks with live
calculations. Nevertheless, the Postal Service acknowledges that the Cost Segment 3
methods and computer code are complicated, and understands that the documentation
perhaps might benefit from ongoing improvement.